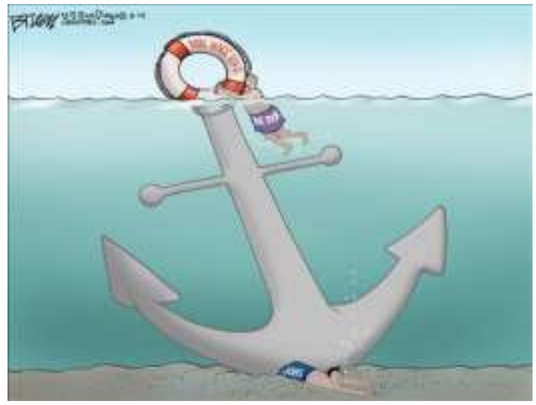
If you don't regularly receive my reports, request a free subscription at ***steve_bakke@comcast.net*** !
Follow me on Twitter at ***http://twitter.com/@BakkeSteve*** and receive links to my posts and more!
Visit my website at **http://www.myslantonthings.com** !

MINIMUM WAGE POLICIES: EVALUATE BASED ON PROBABLE RESULTS, NOT JUST GOOD INTENTIONS! AN UPDATE!



By Stephen L. Bakke August 14, 2016

(In addition to other information sources mentioned herein, I also relied on the National Center for Policy Analysis and The Heritage Foundation. Here's my opinion on a topic that has much bipartisan disagreement.)

Since its introduction in the 1938 Fair Labor Practices Act, the **intent of the federal minimum wage has shifted from eliminating child labor exploitation to its current goal of combating poverty.** And something else has changed as well!

I believe the minimum wage debate must now be argued on two different levels. We must first discuss the impact of an incremental increase of a dollar or two. That should be followed by a separate analysis and debate about the recent push for a $15 minimum. While I strongly believe this issue should be a state and local issue, the feds are now becoming seriously involved. First I'll deal with the more modest incremental minimum wage increases.

Incremental minimum wage increases

Today, the expressed goal of incremental minimum wage increase legislation is to improve the economic well-being of the poorest working Americans. This is very noble, to be sure, and a goal I enthusiastically support. But before making a decision on how to address our goal of poverty reduction, **we should look at the predicted results of the policy, and not just rely on good intentions.** Let's try to emphasize examining predictable outcomes when analyzing minimum wage increases. Consider the following:

- Most people are poor because they don't have full time jobs, or have no job at all. Minimum wage increases tend to make this worse.
- Raising the minimum wage (particularly the large increase being discussed recently) measurably reduces the number of minimum wage jobs available. The unemployed are pushed further away from likely employment.
- Increases in the minimum wage tend to affect teenagers and secondary wage earners – NOT the working poor.
- About 63% of minimum wage workers are second or third earners in families earning at least twice the poverty level.
- Only approximately 11% of workers who earn the minimum wage live in poor households – about half of what it was five years ago.

- For those living in poverty, an increase in the minimum wage might be partially "given back" because other benefits they are receiving are "means tested."
- Workers are not "locked into" minimum wage jobs. Two thirds earn a raise within a year, and most are demonstrably "upwardly mobile."
- A recent proposal by Obama to raise the minimum was predicted by the Congressional Budget Office to cost several hundred thousand jobs.

Analyzing the general public's attitude is difficult. Approximately 72% approved of raising the minimum wage if they were assured it would have no negative effect on jobs. But, when fewer jobs or layoffs are mentioned as a variable, the approval goes down to 38%. (Source: Reason-Rupe poll.)

Professional economists are clearly divided:

- In a Wall Street Journal survey of economists, 54% of the responders were against a recent Presidential minimum wage increase proposal.
- The Washington Times reported that economists David Neumark and William Wascher, based on their meta-analysis of more than 100 studies, concluded that 85% of the studies reviewed indicated "adverse consequences" – i.e. fewer jobs!
- The Federal Reserve Chairman, Janet Yellen, seemed to accept the CBO conclusion re: the impact on jobs of the minimum wage increase. She stated she "wouldn't want to argue with their assessment."
- Economist Thomas Sowell reported that "A survey of American economists found that 90% of them regarded minimum wage laws as increasing the rate of unemployment among low-skilled workers. Inexperience is often the problem."

Bottom line: the goal of incremental minimum wage increases is noble, but these dollars predictably won't end up helping the intended target, the working poor. **All those good intentions will most likely be left unfulfilled.**

Now let's turn to the huge transformational minimum wage increases that are now being seriously considered and even implemented.

Transformational minimum wage legislation – the $15 per hour issue

For quite a while, the "$15 per hour" issue was just talk, but now it's gaining traction. Initially, several cities passed rules governing this huge increase in minimum wages. Then California and New York state both passed laws establishing the $15 minimum. And now serious attempts are being made at the federal level. Senator Bernie Sanders introduced a bill providing for a graduated increase to $15 over 4 years, and Senator Dick Durbin jumped on board to co-sponsor the legislation.

Here are some observations about an increase to $15:

- The major drawback of the smaller, incremental increase discussed earlier, is that the benefit is not reaching the intended target – i.e. the working poor. In total, this affects very few workers directly. An increase to $15, on the other hand, would affect nearly 1/3 of the workforce – almost 38 million jobs!
- Credible measurements and predictions by The Heritage Foundation indicate that significant costs of the smaller, incremental increases are born by the employer, and there isn't a proportionate decrease in employment. It's predicted that the larger increase to $15 would cause approximately a 7 million decrease in jobs by 2021 – the employer "swallows" only a fraction of this cost increase.

- If jobs are lost as predicted, I believe that lower-skilled workers will be impacted the most.
- The cost of a $15 minimum expands to $18.61 when considering all costs of employing full-time employees. This only makes a bad situation worse.
- One minimum would apply for the entire country. This would produce very different impacts state by state. Imagine the impact on a lower cost of living state compared with New York or California.
- These very real state-to-state disparities would cause much more inflationary pressure in the low cost states than in those currently on the high end of comparative living costs.
- An important employment opportunity for youth would likely be mostly lost because there isn't a special exception for them.

This viewpoint isn't just ideological – i.e. shared by republicans and conservatives alone. Harry Holzer once served as chief economist in President Clinton's Labor Department, and now is a senior researcher for both the Brookings Institution and the Urban Institute. He shares an opinion with many other liberal economists but he is more public in expressing his opinion. He's on record opposing the $15 minimum wage for a very practical reason:

> *"[S]uch increases are extremely risky. In job markets where young or less-educated workers already have difficulty finding jobs and gaining important work experience, such mandates will likely make it much harder……"*

Finally, I question whether the benefits will actually accrue to those remaining workers who end up with higher wages. This would represent a significant increase for almost 1/3 of the workforce, and it would "trickle up" throughout the remaining workforce. Its economic impact would be huge, but I fear misdirected. **The inflationary impact would be unprecedented and soon prices would reflect the higher wages, thus negating desired purchasing power gains!**

My friends, I fear all we would have left would be inflationary prices, no real relative earnings benefit, and a materially shrunken labor force. We have to be careful what we wish for. **I'm convinced this isn't something that would work for workers or the overall economy!**